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April 12, 2021

Dear Members of PACE Credit Union:

**Re: Update from PACE's regulator
The Financial Services Regulatory Authority of Ontario (FSRA)**

I am writing to you to let you know of regulatory decisions we have made to protect you as a member of PACE Credit Union (PACE), and to ensure that PACE continues to be a member-focused community-based credit union serving your needs.

These decisions have been made with PACE's new CEO and management team to implement a stabilization plan that:

- Provides members with confidence that PACE has financial resources to continue operations without interruption, including a committed credit facility from FSRA for \$500 million which PACE can use to repay its deposits without disruption or delay;
- Protects PACE members by ensuring that all member deposits that can be insured, are fully insured;
- Hired a new CEO, and provides him and the PACE management team with increased authority to lead a successful recovery of PACE and to better meet its members needs;
- Allows PACE to temporarily operate with a reduced capital requirement during the recovery period; and
- Requires management to implement better governance, controls and training to ensure members are treated well when PACE sells them financial products.

I want to assure you that your insurable deposits are well protected, and PACE continues to operate to serve your needs.

Why was PACE placed in administration?

FSRA is the regulator for all credit unions in Ontario.

As the regulator, our mandate is to promote high standards of business conduct and provide deposit insurance for members through the Deposit Insurance Reserve Fund (DIRF). We also protect depositors and the DIRF from loss and promote the stability of the credit union sector. We want members to have confidence in our credit unions and a strong credit union sector.

FSRA administers a deposit insurance program that uses the DIRF to protect insurable deposits held with Ontario credit unions. Deposit insurance is part of a comprehensive regulatory program that protects the safety and soundness of credit unions. Learn more about deposit insurance from PACE directly, or go to our [website \(https://www.fsrao.ca/dirf\)](https://www.fsrao.ca/dirf).

In September 2018, to protect PACE's members from failed board governance and misconduct by certain executives, the credit union was placed into Administration by our predecessor, the Deposit Insurance Corporation of Ontario. This gave the regulator control of PACE.

Since June 2019, FSRA has been responsible for supervising PACE's financial safety and soundness (prudential regulation) and its business conduct. In the absence of a board, we provide oversight for the executives managing the day-to-day operations of PACE.

New Regulatory Decisions

Today, we want to inform you of the following decisions:

1. Administration Order #4¹

FSRA appointed David Finnie as PACE's Chief Executive Officer in late 2020. FSRA has full confidence in Mr. Finnie and the current PACE management team. I have signed a new Administration Order which gives Mr. Finnie and his team more authority over the operations of PACE. This will allow PACE to better serve its members.

2. PACE Securities Corporation (PSC) and Preferred Shares

FSRA acknowledges that several hundred PACE members have suffered significant losses on their investments in the preferred shares of PACE Financial Limited (PFL) and First Hamilton Holdings Inc. These preferred shares were distributed by PSC, a PACE subsidiary and the owner of PFL.

We have worked with PACE to create a mediation process ordered by the Court to fairly address the claims of preferred share investors.

The law of Ontario governing credit unions (referred to as the Credit Union and Caisses Populaires Act, or CUCPA) permitted PACE to refer its members to PSC, but not to sell securities directly. FSRA has determined that a small number of PACE Credit Union employees directly sold preferred shares to PACE members in breach of the CUCPA.

¹ FSRA website: [Administration Order 4 – March 26, 2021](#) or you can go to www.pacecu.ca

Working with Mr. Finnie and his team, we have identified measures to ensure that this won't happen again. PACE management will be required to take decisive action to reinforce all regulatory requirements, including those related to sales of financial products. This includes implementing better governance, controls and training of PACE employees.

FSRA and PACE are committed to working in good faith through the mediation process set up by the court to achieve fair treatment for all parties.

3. Capital Variance Decision²

PACE management has advised FSRA that, based on PACE's 2020 financial results, PACE's regulatory capital at December 31, 2020 does not meet regulatory (CUCPA) requirements.

FSRA has decided to vary the CUCPA capital requirements for PACE so that it can continue to operate and serve its members. We can grant this variance because of PACE's proposed business and capital recovery plans, our confidence in PACE management and the anticipated proceeds from the recovery litigation against the former CEO and President of PACE and certain former directors³.

To protect the interests of members, PACE will operate under conditions, including proactively contacting uninsured depositors. During this time, PACE must avoid taking deposits which are not insured and arrange for uninsured deposits to be repaid on a timely basis.

PACE will also protect its capital by ceasing dividend payments and restricting investment share redemptions and employee bonuses.

At PACE's April 28th Annual General Meeting (AGM), you will learn more about PACE's 2020 financial statements and business plan. You will have the opportunity to review materials and ask questions of PACE's management.

4. Liquidity Facility

PACE has strong liquid financial resources. However, to provide members with confidence that PACE has more than adequate financial resources to continue operations without interruption, and to pay its deposits without disruption or delay, we have agreed to provide a \$500 million credit facility and are in the process of finalizing its documentation.

As we live in unprecedented and uncertain times, this will protect PACE depositors against unexpected adverse events.

We want PACE members to know they can continue to rely on their credit union without concerns about the safety or availability of their insured deposits.

² FSRA website: [Variance Letter](#) or you can go to www.pacecu.ca

³ Shortly after PACE was placed in administration, FSRA, as Administrator, commenced legal proceedings under Court File No. CV-19-00616388-OOCL in the Ontario Superior Court of Justice (Commercial List) against the former CEO and President of PACE and certain former directors.

Looking Forward

I understand that the Administration of PACE and the recovery litigation are taking longer to complete than you may have expected. Unfortunately, COVID-19 and other unexpected developments have impacted PACE's financial strength. This has caused FSRA, despite the hard work of the former PACE Board elected in January 2020, to step-back from the return to member-controlled governance. FSRA remains committed to working through this adversity to protect the interests of PACE and its members.

I also acknowledge the impact on certain PACE members due to the failure of PSC, and the significant loss of value in their preferred share investments. FSRA will continue to work with PACE and its counsel to seek a fair resolution of all claims through the mediation process, and to advocate for PACE's interests against those who caused the harm. Unfortunately, the timeline for resolving these matters is beyond FSRA's or PACE's control, and continuing patience and perseverance will be required as such matters involve significant uncertainty. Because of court orders in the pending legal proceedings, FSRA cannot comment further on these issues.

PACE and its members have faced much adversity since 2018. PACE's employees have also been through a difficult time, and I would like to thank them for their efforts to continue to serve you, the PACE members.

FSRA has full confidence in PACE's CEO and management team - and, with the arrangements discussed above, we believe you, the PACE members, can continue to rely on PACE as your financial partner.

PACE's members have embodied the spirit and the strength of the co-operative movement, and I thank you for that continuing support.

We have appended some Questions and Answers for your information. If you have any additional questions, you can contact the FSRA Contact Centre at 416-250-7250 or 1-800-668-0128. You can also send us an email at contactcentre@fsrao.ca

I look forward to seeing you at PACE's April 28 AGM.

Yours truly,



Mark White
Chief Executive Officer,
Financial Services Regulatory Authority of Ontario

cc. David Finnie, CEO, PACE Credit Union

Questions and Answers for PACE members

1. What does this mean for me?

- PACE remains open for business to continue serving your financial needs.
- Insurable deposits are protected and therefore such money is safe and will continue to be safe.
- PACE is making sure your deposits that can be insured, are insured.
- PACE will contact you by May 6, 2021 if you have uninsured deposits. They will help you find way to re-organize your deposits so that they can become insured and provide for additional coverage, or to discuss repayment of uninsured deposits.
- If you are unsure about your deposits, please call PACE at **1 877 588 7223**.

2. Should I continue with PACE?

- Yes, given the measures put in place to protect PACE's members, you can continue to work with PACE as your financial partner with confidence.
- PACE members can continue to rely on the credit union without concerns about the safety or availability of your insured deposits.
- PACE's new CEO and his team have the experience and knowledge to ensure that the credit union continues to operate and to serve your needs.
- Insured deposits continue to be insured, and PACE will contact you by May 6, 2021 to discuss options for uninsured deposits, such as re-organizing your deposits so that they can become insured and provide for additional coverage, or to discuss repayment of such uninsured deposits.
- We have put additional measures in place to protect you. For example, PACE must avoid taking new deposits that are not insured.

3. Is my money safe? Should I move my money?

- Your insured deposits are safe, and will continue to be safe.
- In Ontario, the moment you become a credit union member and make a deposit, your insurable deposits are protected. Deposits in registered accounts (such as your RRSP, RRIF and TFSA) have unlimited coverage. Non-registered insurable deposits held at an Ontario credit union – in Canadian funds, payable in Canada – have a maximum coverage amount of \$250,000. PACE will contact members with uninsured deposits by May 6, 2021 and work with them to re-organize those deposits in order to insure them if possible, or to discuss repayment of such uninsured deposits.
- PACE must avoid taking any deposits which are not insured and to arrange for such deposits to be repaid on a timely basis.
- We want to make sure that you fully understand what is covered by deposit insurance and what is not. Please contact your local PACE Branch or <https://www.fsrao.ca/dirf>

4. Is my retirement money safe?

- All insurable deposits in the following registered accounts have unlimited deposit insurance coverage: Locked-in retirement account (LIRA); Life income fund (LIF); Registered retirement savings plan (RRSP); Registered retirement income fund (RRIF); Registered disability savings plan (RDSP) and Tax-free savings account (TFSA).

5. I thought that all my money/savings was covered by insurance – is that not the case?

- FSRA has a deposit insurance program that protects insurable deposits held with Ontario credit unions.
 - Deposits in registered accounts have unlimited coverage.
 - Non-registered insurable deposits held at an Ontario credit union – in Canadian funds, payable in Canada – have a maximum coverage amount of \$250,000.
 - PACE will contact members with uninsured deposits by May 6, 2021 and work with them to re-organize those deposits in order to insure them if possible, or to discuss repayment of such uninsured deposits.
- Learn more about insured and uninsured deposits: <https://www.fsrao.ca/dirf>

6. Can I see PACE's 2020 financial results?

- Financial statements are part of the AGM package. They will be posted online by April 15th (www.pacecu.ca) or you can request a hard copy from your local branch (1 877 588 7223).
- The financial statements will be presented at the April 28th AGM. You will be able to ask questions of PACE Credit Union management on the financial statements at that time.

7. What is the status of the preferred share investor claims?

- FSRA acknowledges that many PACE members have suffered losses on their investments in the preferred shares of PACE Financial Limited and First Hamilton Holdings Inc. These preferred shares were distributed by PACE Securities Corp. (PSC), a PACE subsidiary.
- FSRA has worked with PACE to create a mediation process to work towards settling all preferred share investor claims. FSRA and PACE are committed to working in good faith through the mediation process set up by the court to achieve fair treatment for all parties.

8. Is there a plan for PACE's return to normal operations and member-controlled governance?

- FSRA has a comprehensive stabilization plan that it is implementing with PACE management to protect and serve PACE members.

The stabilization plan:

- Provides members with confidence that PACE has financial resources to continue operations without interruption, including a committed credit facility from FSRA for \$500 million which PACE can use to repay its deposits without disruption or delay;
- Protects PACE members by ensuring that all member deposits that can be insured, are fully insured;

- Provides PACE's new CEO, and the PACE management team, with increased authority to lead a successful recovery of PACE and to better meet its members needs;
 - Allows PACE to temporarily operate with a reduced capital requirement during the recovery period; and
 - Requires management to implement better governance, controls and training to ensure members are treated well when PACE sells them financial products.
- PACE's return to member controlled governance is dependent on PACE's management team meeting your needs and returning it to profitability, and on managing through the recovery litigation started in 2018 (against the former president and CEO of PACE and certain former directors), and the claims of investors in the preferred shares.
 - As we work through this adversity, FSRA has confidence in PACE's new CEO and management team, and with the regulatory decisions we have made, members can continue to rely on PACE as their financial partner.

9. Why does PACE have low regulatory capital and what does it mean to me?

- Regulatory capital is a buffer against financial loss and other adversity – it protects deposits from loss.
- COVID-19 and other unexpected developments caused losses in PACE's operations, loans and other investments - this reduced PACE's financial strength.
- FSRA's stabilization plan for PACE helps protect depositors from the increased risk due to unusually low capital.
- Anticipated proceeds from the recovery litigation (against the 2018 CEO and President of PACE, and certain directors from 2018) can restore PACE's capital.